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SUBJECT: SOUTH AFRICA: MBEKI ANNOUNCES THE ACCELERATED AND
SHARED GROWTH INITIATIVE, MLAMBO-NGCUKA ELABORATES

REF: PRETORIA 00109

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11. (U) Summary. In his State of the Nation address on
February 3, President Thabo Mbeki spent considerable time
introducing what he termed the "Accelerated and Shared
Growth Initiative of South Africa" (ASGISA), which he
described as a limited set of interventions designed to
halve unemployment and poverty by 2014. He left it to
Deputy President Phumzile Mlambo-Ngcuka to elaborate. In
subsequent speeches and presentations, Mlambo-Ngcuka
identified constraints to economic growth and outlined a
series of microeconomic policies and interventions to
accelerate growth. End Summary.

ANNOUNCED SOUTH AFRICAN GROWTH STRATEGY

12. (U) In his State of the Nation address on February 3,
President Mbeki announced the Accelerated and Shared Growth
Initiative of South Africa (ASGISA), which he described as a
limited set of government interventions designed to halve
unemployment and poverty by 2014. On February 6, in her
Parliamentary speech, briefing to the media, and an address
to a Department of Home Affairs Conference on Foreign
Operations, Deputy President Mlambo-Ngcuka, the chief
architect of ASGISA, elaborated on the details. She
explained that ASGISA was not intended to replace the Growth
and Employment and Reconstruction (GEAR) strategy or
constitute a new industrial policy. Rather, ASGISA was a
set of specific microeconomic interventions designed to
overcome specific "binding constraints," accelerate growth,
and bridge the divide between the first and second
economies.

ASGISA Policies

13. (U) Mlambo-Ngcuka explained that ASGISA policies would
target six constraints on growth and employment: (1)
volatility and level of the currency, (2) costs, efficiency,
and capacity of the national logistics system; (3) shortage
of skilled labor; (4) limited competition and new investment
opportunities; (5) regulatory environment and its burden on
small and medium businesses; and (6) deficiencies in state
organization, capacity, and leadership. To overcome these

constraints, the government would intervene in six areas: (1) improving infrastructure; (2) implementing targeted sector strategies; (3) education and skills development; (4) creating opportunities in the second economy; (5) improving public administration; and (6) macroeconomic issues i.e., government budgeting and expenditure management.

Infrastructure

¶4. (U) ASGISA identifies R370 billion (approximately \$62 billion) in infrastructure spending over the current three-year Medium Term Expenditure Framework. Parastatals account for 40% of this amount, which comes mostly from Eskom and Transnet at R84 billion (\$14 billion) and R47 billion (\$7.8 billion), respectively. Eskom's already declared focus is on increasing electricity generation and transmission. Transnet's already declared focus is on ports and railways. In addition, the Airports Corporation of South Africa will spend R5.2 billion on airport improvement and a trade port in the Durban area. Government will spend another R19.7 billion (\$3.3 billion) on improving water and telecommunications infrastructure with a view to expanding reach and/or reducing costs. In addition, the provinces have been asked to propose infrastructure projects that would create employment, reduce poverty, and grow their local economies.

Targeted Sectors

¶5. (U) ASGISA identifies two sectors for immediate action and nine sectors waiting for detailed business plans to be drawn up. The two sectors for immediate action are tourism

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and business process outsourcing (for example, call centers). Mlambo-Ngcuka explained that these two service sectors offer the quickest returns. She estimated that they could provide an additional 500,000 jobs by 2014. Call centers could help boost employment by 100,000 jobs by 2009, and tourism's could employ an additional 400,000 as it grows from 8% to 12% of GDP by 2014. Mlambo-Ngcuka left it to the Minister of Trade to elaborate on tailor-made incentives to support business process outsourcing, and the Minister of Environment and Tourism to do the same for tourism.

¶6. (U) Other priority sectors under consideration include biofuels, chemicals, metals and metallurgy, agriculture and agro-processing, creative industries, wood pulp and paper, clothing and textiles, and durable consumer goods. In addition, Mlambo-Ngcuka said that ASGISA will consider cross cutting industrial policies in the areas of competition policy and "import parity pricing" (a reference to local steel prices that are set at just below the cost of importing foreign steel), improving trade negotiating capacity, providing incentives for research and development, and transforming industry through broad-based black economic empowerment (i.e., affirmative action).

Education and Skills Development

¶7. (U) To raise the education and skill levels of South Africa's workforce, Mlambo-Ngcuka announced the establishment of a new institution in March 2006, called the Joint Initiative for Priority Skills Acquisition (JIPSA). JIPSA will be led by a committee of Ministers, business leaders, trade unionists, and education experts. Their mission will be to find quick solutions to shortages of urgently needed skills. Meanwhile, the government will continue to work on improving the quality of public education, and to improve adult basic education programs and vocational training in the skilled trades. Mlambo-Ngcuka left it to the Minister of Education to later elaborate on these programs.

Growing the Second Economy

¶18. (U) Mlambo-Ngcuka spent quite a bit of time discussing ASGISA plans to foster the growth and development of what President Mbeki has termed South Africa's "second economy." She estimated that the Expanded Public Works Program, spending R4.5 billion (\$200 million) over the next three years, would create 163,000 road maintenance and construction jobs and produce an additional 1,000 black-owned contractors. More government funds would be channeled into small business loans in the amounts between R10,000 to R250,000 (\$1700 to \$42,000) and into venture capital funds, such as the R1 billion fund recently created by the Industrial Development Corporation, that would solely invest in SMMEs. In addition, affirmative action would generate opportunities along the supply chain across industries and throughout the country. Black SMMEs would be the sole suppliers to government of 10 designated products. Mlambo added that the Minister of Labor would review labor legislation with an eye to reducing the regulatory burden on SMMEs. [Comment: This review may be related to a Department of Labor report on the impact of regulation on small business that has been in the works since July. End Comment.] Mlambo-Ngcuka left it to the Minister of Labor to elaborate further. [Note: On February 16, COSATU President Vavi publicly blasted this part of ASGISA, saying that relaxing labor standards would do nothing to improve the standard of living in South Africa. End Note.]

¶19. (U) Addressing related areas, Mlambo-Ngcuka said that ASGISA would give "special attention" to increasing the stock of houses with prices ranging between R50,000 and R150,000, but did not elaborate how. She also talked about establishing youth advisory centers, cooperatives, and creating a national youth service for unemployed blacks.

Public Administration

¶10. (U) Mlambo-Ngcuka acknowledged the need for government

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to improve implementation of policies and programs, and said that all spheres of government and state owned enterprises were expected to contribute to ASGISA. However, the only concrete action that she provided was that the Development Bank of Southern Africa (DBSA) was constructing a database of retired experts willing to help municipal governments with project management and maintenance. DBSA had identified 90 retirees out of an estimated pool of 150. [Note: In his State of the Nation speech, President Mbeki said that these 90 were offered by the Freedom Front Plus, a conservative, largely Afrikaans political party.]

Macroeconomic Issues

¶11. (U) In the macroeconomic arena, Mlambo-Ngcuka noted that SAG had consistently underestimated its revenues and overestimated its expenditures, resulting in expansionary fiscal policy at the beginning of the year and a contractive fiscal policy at the end. She said that National Treasury planned to introduce a new capital expenditure management information system in 2006 that would help in this regard. Beyond this, the National Treasury and the South African Reserve Bank would "engage" on overcoming the constraints listed in Paragraph 3.

Comment

¶12. (SBU) ASGISA does not present a new direction for South African economic policy, but rather is a mixture of microeconomic policies, programs, and expenditures, many of

which have already been detailed in past budget statements, announcements by state-owned enterprises or ANC policy documents. ASGISA groups these, and a few initiatives, such as targeted sectors, in an overarching framework that could, if well implemented, contribute to higher growth. This framework may help government middle managers to focus on specific actions that their leaders want them to implement. However, as noted in reftel, labor reform is the key political issue for the success of ASGISA.

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